

Message Text

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C O N F I D E N T I A L MOSCOW 18446

USDOC FOR BEWT/USSR AND BEWT/TDAD

E.O. 11652: GDS

TAGS: ETRD, EEWT, EFIN, UR, US

SUBJECT: FOREIGN EXCHANGE SQUEEZE HITS HIGH-PRIORITY SOVIET PROJECTS

1. ALTHOUGH EMBASSY HAD ASSUMED THAT CURRENT RESTRICTIONS ON HARD-CURRENCY EXPENDITURES WOULD NOT EFFECT CERTAIN HIGHEST-PRIORITY PROJECTS, RECENT NEGOTIATIONS ON EQUIPMENT FOR BAM RAILROAD PROJECT INDICATE THAT THIS MAY NOT BE THE CASE.

2. REPRESENTATIVE OF GROVE CRANE INFORMED COMMERCIAL ATTACHE DECEMBER 26 THAT HE HAD BEEN ADVISED BY MASHINOIMPORT THAT:

A) 100 PERCENT FINANCING WOULD BE REQUIRED FOR SALE OF CRANES TO BE USED ON BAM RAILROAD PROJECT; AND

B) THERE WOULD BE NO RPT NO FUNDS AVAILABLE FOR REPAYMENT OF CREDITS DURING 1976.

GROVE REP HAD PREVIOUSLY ARRANGED FOR FIVE-YEAR COMMERCIAL BANK FINANCING (THROUGH LLOYDS BANK INTERNATIONAL) COVERING 90 PERCENT OF PURCHASE PRICE (ABOUT DOLLARS 10 MILLION). FINANCING WOULD BE BASED ON ISSUANCE OF 6.5 PERCENT PROMISSORY NOTES BY MASHINOIMPORT GUARANTEED BY BANK OF FOREIGN TRADE. INTEREST RATE DIFFERENTIAL WOULD BE FOLDED INTO PRICE OF EQUIPMENT, AS HAS BEEN DONE FREQUENTLY IN PAST. LATEST SOVIET POSITION MEANS THAT THERE CAN BE NO DOWN PAYMENT. SOVIETS HAVE ALSO PROPOSED THAT DELIVERY OF EQUIPMENT BE SCHEDULED IN SUCH A

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MANNER THAT FIRST OF TEN SEMI-ANNUAL PAYMENTS ON NOTES WILL COME

DUE ONLY AFTER JANUARY 1, 1977. GROVE REP SAID HE DID NOT ANTICIPATE MAJOR PROBLEMS IN MEETING SOVIET REQUIREMENTS ON FINANCING TERMS. HIS MAJOR PROBLEM APPEARED TO BE COMPETING OFFER FROM JAPANESE FIRM WHICH WAS 10 PERCENT BELOW HIS OFFER.

3. COMMENT: PATTERN OF GROVE NEGOTIATIONS IS QUITE CLOSE TO THAT ESTABLISHED IN NOVEMBER 1975 TALKS BETWEEN HERMAN CORP. AND METALLURGIMPORT (SEE MOSCOW 15905) IN WHICH SOVIETS CLAIMED THAT THERE WOULD BE NO FUNDS AVAILABLE UNTIL 1977. HERMAN CONTRACT, HOWEVER, WAS FOR EQUIPMENT WHICH COULD HARDLY BE CONSIDERED OF HIGHEST PRIORITY, WHEREAS GROVE EQUIPMENT IS FOR BAM, WHICH WE WOULD HAVE THOUGHT WOULD BE MORE OR LESS EXEMPT FROM CUT-BACKS. IT IS POSSIBLE, OF COURSE, THAT SOVIETS ARE SIMPLY PUSHING FOR BEST DEAL THEY CAN OBTAIN AND THAT THEY WOULD EVENTUALLY COME THROUGH WITH BOTH DOWN PAYMENT AND INITIAL REPAYMENT OF CREDIT DURING 1976 IF GROVE INSISTED. HOWEVER, GROVE CASE MAY BE INDICATION OF HOW DEEP CUT-BACKS ARE RUNNING. MATLOCK

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